EDINBURGH WORLDWIDE INVESTMENT TRUST – MANAGER UPDATE PART 2

DOUGLAS BRODIE, PORTFOLIO MANAGER OF EDINBURGH WORLDWIDE INVESTMENT TRUST, DISCUSSES THE PHILOSOPHY THAT UNDERPINS THE STRATEGY AND THE WAYS IN WHICH THE TEAM IDENTIFIES SMALLER COMPANIES WITH GROWTH POTENTIAL.

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The film was produced in April 2019.

This communication was produced and approved on the stated date and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

Anzelm Cydzik (AC): Do you apply the same investment process analysis when looking at unlisted equities?

Douglas Brodie (DB): By and large, I would say it’s a very high degree of overlap, we don't change how we think about these businesses, how we put them through that similar process. Our mindset is the same, the frameworks that we use. There are nuances around it, in terms of just maybe some of the comfort levels that you have to achieve with these businesses. There's no finesse in your decision, it’s somewhat binary, do you invest, do you not.

But, essentially, the process, I would argue, is the same. And it’s not like it takes us to a radically different stage of these businesses’ development. More often than not, it’s a choice on the company as to how it’s pursued funding, be it in the private sphere or the public sphere, rather than it’s a stage of development that these businesses must go through.

AC: So, is there any difference in your return expectations for these companies?

DB: No, I wouldn't say so. I would just caveat that around the greater degree of comfort that you have to have, arguably, in some of the softer factors of those... That those businesses... The comfort that the management team can really deliver and that the proposition is real and is likely to resonate with customers.

AC: Now, my understanding is that you've lost a number of holdings in the portfolio over the past year, due to M&A activity? How happy are you about this?

DB: I certainly wouldn't use the word happy. I mean, to give a little bit of context around it, we've lost about six businesses, six holdings to M&A, over around an 18-month period, which would represent quite a marked acceleration versus previous periods.

And that's in the context of a portfolio that's about 100 holdings. It's not something we relish, we don't look forward to it, we don't expect it, we don't build our investment cases around it. But there's probably a sort of reluctant acceptance that, in a way, it's how the world works. Big businesses struggle to innovate, the bureaucracy has built up, they don't have that innovative mindset. And so often what you see is the more nimble, smaller businesses that can grab these new technology tools, innovate, and iterate with them that... They're the ones that come up with the problem-solving element. And the way that bigger businesses deal with that is often to buy the smaller business that solved the problem for them.

We don't like that, we don't hope that happens, but we accept it does in various cases.

There's interesting dynamics around that. As I've alluded to earlier, some of the tools that now allow businesses to scale, quite possibly helped some of these small businesses get to a point and scale quite so quick that they escape that risk they get acquired by some of these bigger businesses. But, ultimately, we'll learn more about that over the coming decades.

AC: Now, last quarter of 2018, markets underwent a notable period of volatility. Did you do anything notable with the portfolio during this period?

DB: Yes, I guess we're conscious that in the short term, markets can be in this constant, sort of, tussle between fear and opportunity and the catalysts that tip that one way. I wouldn't say we pay too much attention to that. The catalysts tend to be fairly short term in nature, and actually very removed from what we think are some of the longer-term structural arguments that are at work, either in the economy at large or perhaps more relevantly in some of the industries, in the businesses that we invest in.

But occasionally you are sort of gifted opportunities in that regard, so we added to a few of our larger holdings in that sense, some of our newer holdings, I think we were almost gifted opportunities to do that. We made an addition to Yext, which I think is a very interesting data knowledge management tool for various businesses around the world. We added to Zillow, a marketplace for real estate in the US, and interesting avenues for how they're looking to grow that business. We actually took a new holding in a business called Axon Enterprise, which people may know, it's the manufacturer of Taser devices and body cameras worn by various police forces around the world.

That side of it is an interesting business, but there's an awful lot of technology and software development that is being used and developed by the police forces to kind of archive and make sense of all that data that's being developed in the field, so we think that's a very interesting area. It's nice to be given those opportunities, and around the edges we do seek to exploit them when we can, but ultimately we are a low turnover portfolio, but it's nice to have those opportunities when we can.

AC: So, how excited are you about the current opportunity set?

DB: Oh, hugely, when you think about what's going on the world, just that innovation cycle that we're in, that toolkit of technologies that companies now have access to, everything that we're seeing for those frontiers of innovation moving so fast in so many different areas. And the companies that I think are best positioned to exploit that tend to be the smaller, more nimble businesses, the ones that can grab these new technologies and really work with them, and iterate them, and really push them.

And you're starting to see that come through now, I think, with some of these interesting, very scalable businesses, tools that now allow companies to have different revenue models, different avenues for growth. And some of those assumptions of the past about how companies must grow, I think are beginning to be challenged.

So, as an investor in these interesting up and coming small, high-potential businesses, that's the backdrop we love, and it's a challenge we relish.

AC: Douglas, thank you.

Annual Past Performance to 31 March Each Year (%)

	2015	2016	2017	2018	2019
Edinburgh Worldwide Ord	5.5	-3.8	28.2	41.3	18.3

Source: Morningstar. Share price, total return. Sterling.
Past performance is not a guide to future returns.

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